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C O N F I D E N T I A L SECTION 01 OF 02 AMMAN 004310

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PASS TO TDA FOR CYBIL SIGLER/HENRY STEINGASS

E.O. 12958: DECL: 05/25/2009  
TAGS: EPET ENRG EINV JO  
SUBJECT: ENERGY MINISTER ADDRESSES TRANSPARENCY CONCERNS,  
ONGOING PROJECTS

REF: A. AMMAN 830

B. AMMAN 3293

Classified By: AMBASSADOR EDWARD W. GNEHM FOR REASONS 1.5 (B)  
AND (D)

11. (SBU) SUMMARY: According to Energy Minister Khreisat, the al-Samra power plant construction tender has been and will remain transparent, despite complaints by U.S. contractor Black & Veatch (B&V). In a May 24 meeting, Khreisat also shared the Energy Ministry's plans for modernization of the Zarqa refinery and the second phase of the Arab Gas Pipeline, reiterated his interest in connecting the Jordanian and Iraqi power grids, and touched on several other energy-related projects in which U.S. companies have some level of involvement. END SUMMARY.

12. (SBU) Ambassador Gnehm met with Minister of Energy Azmi Khreisat on May 24 to discuss ongoing energy issues and to register American concern about the treatment faced by B&V in an ongoing tender for construction of the al-Samra power plant. Also present at the meeting were Econ/C, SC0, and Abdel Fattah Al-Nsour, the managing director of the Central Electricity Generation Corporation (CEGCO, the state-owned power generation monopoly).

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AQABA-RIHAB GAS PIPELINE  
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13. (SBU) According to Khreisat, Phase II (Aqaba-Rihab) of the &Arab Gas Pipeline8 (see reftel A) appears to be well under way. The Egyptian consortium constructing the project has finalized the financing of the project, and loan agreements will be signed next month. The Egyptian Minister of Energy has promised that the line will be finished by the end of 2005 or the beginning of 2006. No final decision has been reached regarding an extension of the pipeline to Syria and Lebanon, though Khreisat deemed the episodic bilateral and multilateral discussions on the topic to be &positive.8

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IRAQI-JORDANIAN GRID CONNECTION  
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14. (U) Khreisat noted his continued interest in a connection between the Jordanian and Iraqi power grids, reiterating his ministry's plan to install a 400 kV line to the nearest Iraqi power substation (see reftel B). He said that the eventual commercial structure of Iraq's purchases of extra power from the grid would be a swap deal, in which Jordan would take extra power from Egypt and sell extra power to Iraq. When the project is completed, Jordan will be able to deliver 150-200 MW to western Iraq, enough power to supply meet the needs of an area that would include Fallujah.

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KHIRBET AL-SAMRA  
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15. (SBU) Khreisat detailed the progress of several of the GOJ's ongoing power sector projects. He noted that U.S. contractor B&V is a strong competitor in the tender for the construction of the al-Samra power plant. The Ambassador agreed that B&V had many natural advantages in the tender, among which was its proposed use in the project of GE turbines, which are common in Jordanian power plants and would save on training and maintenance costs for the GOJ. The GE turbines would also be able to run on both gas and diesel, a capability that the new plant would require. The Ambassador expressed concern, however, about B&V's charge that the Ministry and CEGCO had first determined that B&V had the most competitive bid, but had also invited the second-ranked bidder to negotiate, contrary to standard CEGCO procedure. The Ambassador reiterated the U.S. concern that all GOJ tenders be conducted transparently. He also expressed his concern that Alstom, the second-ranked bidder in the tender, was under threat of bankruptcy and might be unable to fulfill the terms of a contract even if one were

awarded to it.

16. (SBU) Khreisat replied that while B&V is to this point the leading tender candidate, nothing in the structure of the tender prevented CEGCO from negotiating with the top two bidders rather than the single top bidder. He assured the Ambassador, however, that he saw his own role in the process as safeguarding the tender's fairness and transparency. Al-Nsour added that CEGCO had structured the tender so that all bidders had to pass a technical qualification (which four of six original bidders had passed) and then a commercial qualification, which B&V and Alstom, who had been very close in price, had both passed. While CEGCO was also worried about the state of Alstom's finances (about which it had requested information from Alstom in writing and as yet received no reply), it saw no harm in pursuing two tracks of negotiations at once. Al-Nsour said that in any case, everything would be clear by the first week of June.

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ZARQA REFINERY  
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17. (SBU) Khreisat turned to the refinery at Zarqa, managed by the Jordan Petroleum Refinery Company (JPRC), which he said is a bottleneck for the entire energy sector. The Ministry of Energy has hired a consultant who is currently studying the future of the company over the next 10-15 years. The Ministry expects this consultant to give recommendations on how the sector should be opened, whether JPRC should be split up into its component parts, and whether any of those component parts should be privatized. Khreisat noted that for the refinery to compete, it would have to improve the quality of its products, and that it would have to expand and modernize in order to do so, at an estimated cost of \$700 million. An expansion of this magnitude would require government support or a financing strategy. In the near term, JPRC plans to expand its storage capacity, adding 2 new 45 kiloton gas tanks and another diesel tank, and converting 3 tanks at Aqaba to crude oil. It is also planning to build another berth at the port for tankers ( perhaps through a BOT ) but is working through the associated security issues. Phase II of the Arab Gas Pipeline will include a gas line to the refinery, cutting down on production costs. Khreisat said he was also beginning once again to consider the idea of building an oil pipeline from Aqaba north to the refinery, to cut down on transportation costs.

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OTHER PROJECTS  
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18. (SBU) Khreisat concluded the meeting by reemphasizing his continuing interest in several other planned projects, including Washington Group International's oil shale refining proposal and its plan to build a power plant at the Dead Sea. He expressed his appreciation for TDA's ongoing study of a wind power project, which will also use GE generators. He noted that oil exploration in Jordan's eastern desert is currently being carried out by American independent Trans-Global Petroleum, and said that Jordan plans to open all unexplored blocks to international companies wishing to prospect for oil. Khreisat noted, however, that out of 18 bidders in the tender for the upcoming privatization of CEGCO, only one company was American.

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COMMENT  
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19. (C) Khreisat's and Al-Nsour's protestations to the contrary notwithstanding, CEGCO's decision to negotiate simultaneously with the top two bidders in the al-Samra tender is a substantial departure from its normal tendering procedures. This fact, taken in isolation, does not necessarily imply wrongdoing on anyone's part. The Embassy has, however, recently received allegations of corruption, not necessarily directly involving CEGCO or the Ministry of Energy, in the process of this tender. At a time when the Ministry of Energy is looking for a strategic partner to buy its share of CEGCO, the company would do well to remain above any hint of such scandal, and the Embassy plans to follow up these allegations in the near future. END COMMENT.

GNEHM